Good MornING Asia - 2 April 2019

Australia releases its budget today and the RBA meets (no change expected). Korean inflation falls further. Rate cuts from them beckon.

In this bundle

Until the twelfth of never....

Excuse the Johnny Mathis reference in the title, the Brexit anxiety (Branxiety?) is clearly all getting too much. No-deal Brexit risks mount as the UK...

Asia Morning Bites

ASEAN Morning Bytes

General market tone: Risk-on. Emerging markets may bounce on Tuesday on bargain hunting as good US and China data allays growth concerns.

Asia in 2019: Macro and markets

In this report, we take a look at some of the underlying regional trends in Asia and if a global recession is really set to hit the region. We also have a...

Taiwan

Taiwan’s economy: Still waiting for an export rebound

The US-China trade war has hit Taiwan's manufacturing, exports and the demand for new smartphones, and fiscal and monetary policy can only do so much...

Opinion | 2 April 2019

Until the twelfth of never....

Excuse the Johnny Mathis reference in the title, the Brexit anxiety (Branxiety?) is clearly all getting too much. No-deal Brexit risks mount as the UK Parliament fails to vote for any of the Plan B options. Australia releases its budget today and the RBA meets (no change expected). Korean inflation falls further. Rate cuts from them beckon.

This does actually matter for Asia

I've argued, publically on occasion, that the Brexit mess is a local/regional issue. Here in Asia, it has been a source of some confusion, even amusement (unless you hold a UK or Irish passport), but something that is happening 7000 miles away in a distant corner of the Atlantic.

That was true whilst it looked like some sort of deal, however bad, was likely to be agreed. That would have delivered a transition period, time for an actual trade deal to be cobbled together. Time to prepare.

The rising prospect of a no-deal Brexit changes that. It raises the prospects of a disorderly mess in the real economy. And in financial markets, a flight to safety. The UK is not the only country involved, much of the EU will also suffer, though not as badly. US Treasuries will offer the usual sanctuary, as will the USD. Both the EUR and GBP will drop against the USD, the GBP by the most. JPY and CHF will also gain as usual in such circumstances. In Europe, Bunds will look the bond of choice, with the 10Y Bund becoming even more negative.

A stronger USD, of course, means weaker Asian FX, and that poses threats to some economies, especially those with already very high real rates, which should have been looking at those as a potential source of future stimulus if lowered. It is helpful that the newsflow from China seems to have taken a positive turn, but the next 10 days could shift the balance in a more negative direction again.

Time is running out, April 12th is now only a little over a week away and Parliament seems stuck for answers.

Korean CPI falls - time for a rethink at the BoK

With headline inflation in South Korea only 0.4%YoY (March 2019 figure), and core inflation not much higher at 0.9%. The subcomponent CPI falls were broadly based and subsumed an increase in transport costs coming from rising oil prices. This looks weak. Meanwhile, the domestic economy is stagnating together with a decline in export demand. I can think of no good reason why the BoK should not reverse the November 2018 rate cut. It needn't hang about either. We currently forecast a 3Q19 cut. Scrub that. There is no point in them waiting. Make that a 2Q19 cut, and there is a good chance that it is not the only one this year. We'll wait a bit more before we throw another cut into the forecast, but that's where we are leaning. Our 1150 USDKRW forecast for 2Q 2019 is not looking so daft today.

RBA and budget in Australia

The RBA will most likely leave rates on hold today, though pressure on them to ease is still lingering. That said, yesterday's moderating home price declines, and improved business sentiment, together with a more positive outlook from China mean that we still think "on hold for the foreseeable future" is the more likely outcome. Building approvals data today are not likely to help that story, but won't utterly derail it either.

Today's budget will also likely help foster a "no-change" outlook, with tax cuts widely expected as a pre-election give-away. Look for the timing of the return of the budget surplus to be postponed past 2020. Blame will likely be placed on "overseas" conditions.

Short break in proceedings

And finally, as I gear up for a short break in the EU, whilst I still have visiting rights, my not-quite daily notes will be on hold for a couple of weeks. My excellent colleagues will, of course, keep up their regular release of notes on the region's data releases, and ASEAN bytes will continue while I weed the French garden.

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US

james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

ASEAN Morning Bytes

General market tone: Risk-on. Emerging markets may bounce on Tuesday on bargain hunting as good US and China data allays growth concerns.

EM Space: Risk-on is back on better economic data from the US and China

- **General Asia:** Traders may track the gains on Wall Street with manufacturing numbers from the two largest economies surprised on the upside. US and China PMI numbers both bested market expectations although US retail sales slumped in reaction to the government shutdown and softer consumer confidence.
- **Thailand:** Food and transport prices, both with chunky monthly increases, pushed the CPI inflation to 1.2% YoY in March from 0.7% in the previous month, surpassing the consensus of 0.9%. But the core CPI inflation remained at 0.6%. We don't see inflation drifting far off the low end of the BoT's 1-4% policy target this year, which with anaemic growth allows the BoT to leave the policy interest rate at 1.75% current level. Meanwhile, persistently large current account surplus – February's $6.5bn surplus was the third-largest ever – continues to support the THB appreciation pressure.
- **Malaysia:** In some relief to stretched public finances, a Bloomberg report noted that the government managed to save MYR 806m in spending through renegotiation of 121 infrastructure projects undertaken by the previous government. Weak investment demand has been a missing link in growth since last year, which with current CPI deflation supports

our call of a BNM policy rate cut at the next meeting in early May.

- **Indonesia:** Inflation remains benign at 2.48% in March, drifting below the central bank's 2.5-4.5% target range from 2.57% in February. The main drivers were processed food, clothing and education costs ahead of Presidential elections this month. With inflation likely sticking to the low end of the target the central bank will be focusing on the IDR's performance in deciding the monetary policy.
- **Philippines:** The World Bank lowered its 2019 growth forecast for the Philippines to 6.4% from 6.5% citing the delay in the passage of the new spending bill, as well as weaker agricultural output stemming from the onset of the El Niño weather disturbance. The Bank also trimmed its 2020 outlook to 6.5% (from 6.6%). Growth will likely be supported by strong consumption demand amid slowing inflation, but government spending is seen to be "tempered" in the first half given the budget delay.

What to look out for: Market looks to US data for clues

▪ RBA meeting (2 April)

▪ US durable goods (2 April)

▪ US ADP employment, PMI services (3 April)

▪ India RBI meeting (4 April)

▪ Philippines inflation (5 April)

▪ US NFP (5 April)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Report | 1 April 2019

Asia in 2019: Macro and markets

In this report, we take a look at some of the underlying regional trends in Asia and if a global recession is really set to hit the region. We also have a bash at comparing different growth rates and finding the perennial underperformers alongside delving into the weird relationship this place has with oil

Source: Shutterstock

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Article | 1 April 2019

Taiwan

Taiwan’s economy: Still waiting for an export rebound

The US-China trade war has hit Taiwan's manufacturing, exports and the demand for new smartphones, and fiscal and monetary policy can only do so much to help drive the recovery. 5G equipment production could provide some support, but before that happens weaker corporate earnings may lead to capital outflows and a softer currency

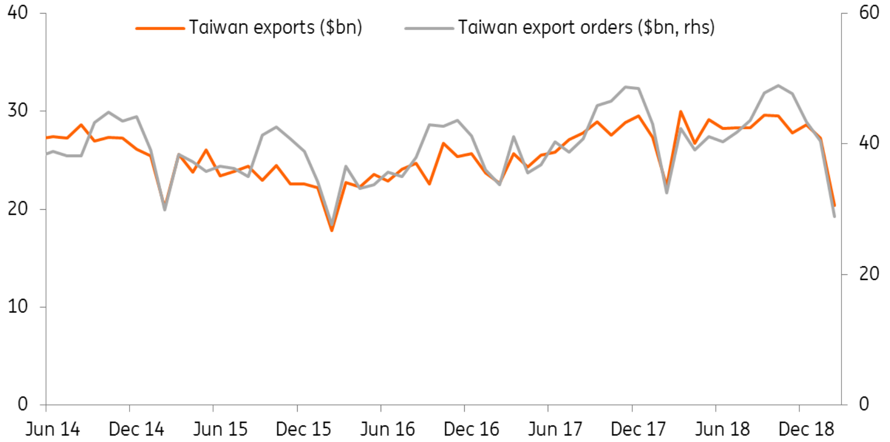
Source: ING, Bloomberg

Taiwan economy is currently under pressure from external factors

Taiwan's economy is a small and open one, which is why the export sector is important to its manufacturing and related service industries such as ports and logistics. But since mid-2018, the external environment has turned negative for Taiwan.

Latest figures show export orders have contracted by 10.94% in February 2019, while exports have contracted by 8.8% since November 2018.

Exports have fallen considerably



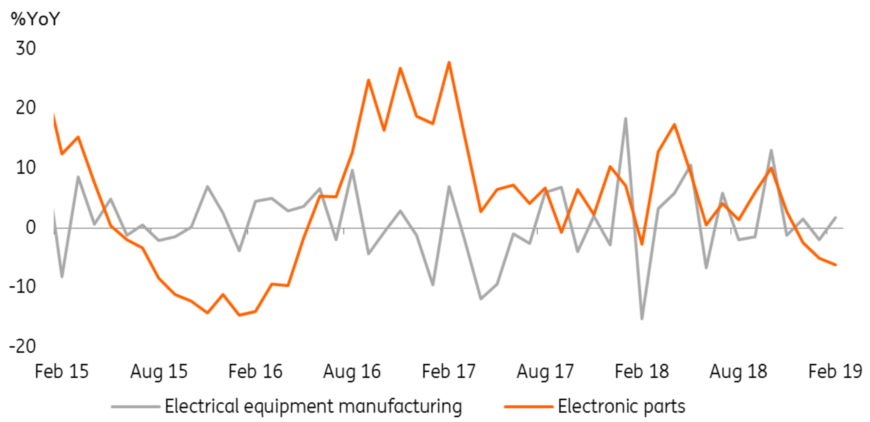
Source: ING, Bloomberg

Taiwan's electronic related sectors have been hit the hardest

This is mostly the result of the trade war between mainland China and the US, which has made businesses defer investment decisions, and therefore orders for electronic equipment have decreased.

Another reason is that the tech giant Apple, who manufactures some parts in Taiwan is experiencing a falling product life cycle for its phones and other smart devices. As a result, exports of integrated circuits have shrunk by 1.1% year-to-date in February, printed circuits have also contracted by 13.2%YoY, and the DRAM market has dwindled by 4.8% YoY.

Historically, electrical equipment manufacturing does not pick up until electronic parts have recovered, so factory expansion may not pick up until there has been a prolonged increase in orders for such items.



Source: ING, Bloomberg

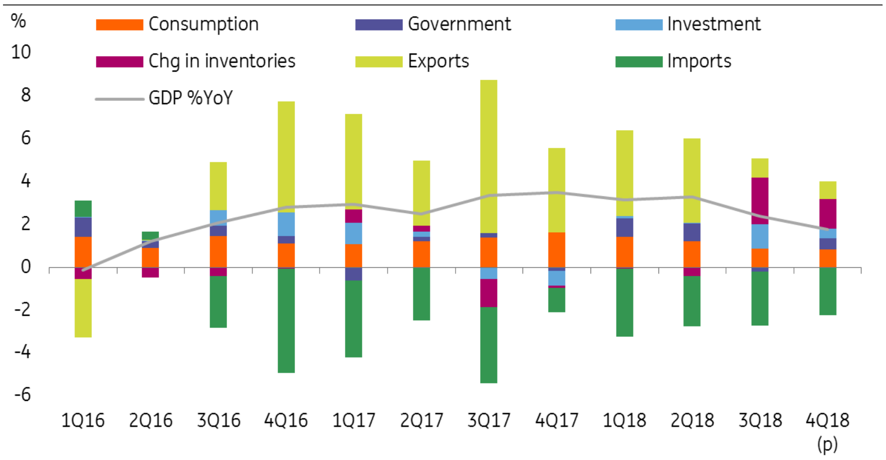
There is only so much fiscal stimulus can do to help

The government has taken up the main role in supporting the economy and will probably increase spending by 2.8% to TWD 2.022 trillion in 2019, which will be around 11% of nominal GDP.

This includes raising infrastructure spending and giving rebates to consumers on energy-saving automobiles.

As you can see in the chart below, historically, fiscal spending can only support the economy for so long. For example, government spending in 1Q16 couldn't prevent GDP growth from falling below zero in annual terms, and it wasn't until export growth rebounded in 3Q16, the economy picked up momentum. So in light of that, we believe, the economy still needs to see a bounce back in exports to see faster economic growth.

GDP growth falls as export sector contributes less to the economy



Source: ING, Statistics Taiwan

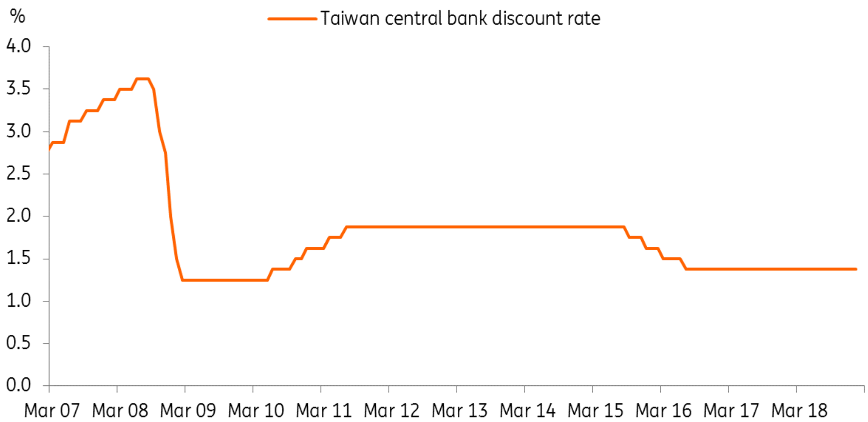
Monetary easing would be the last resort

Monetary easing in 2009 brought Taiwan into the low-interest-rate economy territory, and for the last 32 months, the policy rate has been on-hold at 1.375%. Like other economies suffering from the indirect effects of the trade war, inflation at 0.23% year on year isn't really a concern for a future rate cut, but external headwinds are a challenge for the central bank.

The central bank's recent history of cutting rates by only 0.125 percentage points per move would be too small to have a meaningful impact, and would likely require multiple cuts over successive meetings to provide any noticeable stimulus. Even then, with rates as low as they already are, cutting rates further isn't really going to have a significant impact on the availability of credit, and as we have seen elsewhere (e.g. Japan), as rates approach zero, further easing can deliver the opposite response to that intended.

Therefore, we believe the central bank is saving the bullet until economic growth turns close to negative. But even that doesn't guarantee a rate cut will be an effective tool to rescue the economy.

A rate cut maybe the only trump card the central bank has



Source: ING, Bloomberg

5G to the rescue?

5G could be the opportunity Taiwan needs. As 5G mobile networks begin to develop around the world, there is a demand for 5G equipment from upstream to downstream, and Taiwan has the labour force to produce it all.

But as most of the production demand will arrive when 5G infrastructure coverage worldwide is ready for commercial use, the demand for 5G downstream equipment will come in around late 2020. So 5G may not be able to provide timely support to the open economy, but it should still be a positive in a couple of years.

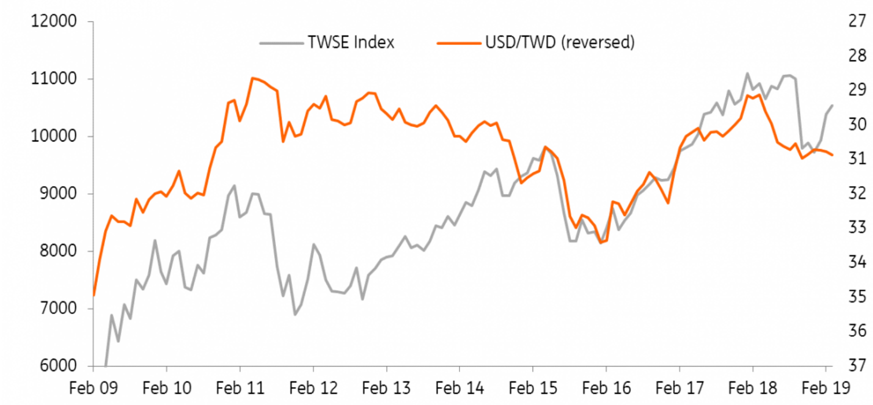
Domestic politics intertwined with external force

The issue that is likely to dominate the presidential elections in January 2020 is whether the new Taiwanese government would like to be more pro-mainland China to be able to get some economic support. But before we see the election results, this debate is likely to create confrontations between the two main political parties - the Kuomintang (KMT), and the Democratic Progressive party (DPP).

The currency will be sensitive to corporate earnings

Taiwan's stock market movements impact the country's exchange rate a great deal because of foreign investments in the stock market.

Why we're revising our call on the Taiwan dollar



Source: ING, Bloomberg

We are concerned that there could be downward surprises in corporate earnings because of the weak sales of smart devices and this will put downward pressure on the Taiwan dollar against the USD.

As such we've revised our TWD forecast from 30.40 to 30.95 by the end of 2019.

Taiwan	2017	2018	1Q19F	2Q19F	3Q19F	4Q19F	2019F	2020F
Real GDP (% YoY)	2.9	2.6	1.4	1.4	2.0	2.2	1.8	2.0
CPI (% YoY)	0.6	1.5	0.2	0.3	0.3	1.5	1.0	1.0
CBC discount rate (%, eop)	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38
3M CP rate (%, eop)	0.65	0.72	0.66	0.66	0.66	0.66	0.66	0.66
10Y govt. bond yield (%, eop)	0.95	0.86	0.82	0.81	0.80	0.80	0.80	0.78
TWD per USD (eop)	29.73	30.55	30.80	30.85	30.90	30.95	30.95	31.15

Source: ING, Bloomberg

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Disclaimer